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Consulting • Recruiting • Training

Why Conduct an HR Audit

The Society for Human Resource Management (SHRM) recommends a regular annual review and especially when one of the following events occurs:

- There are significant organizational changes (e.g., merger, acquisition, sale of business, additions or departures of key senior management, etc.).
- Major regulations or legal changes are announced.
- A business grows to the point of supervisors making hiring, discipline, promotion, demotion, transfer or termination decisions without direct supervision of the HR department.
- A company opens new facilities in another state or country.
- Employee morale, high turnover, attendance or excessive discipline problems become key issues.
- A company becomes a government contractor or subcontractor.

Most Likely Problem Areas

Most lawsuits can be traced to four distinct stages of the employment relationship:

1. Hiring (e.g., job descriptions, application forms, employment contracts, references).
2. Employee evaluation (e.g., performance appraisals and promotions).
3. Employee discipline (e.g., rule infractions, evidence, poor performance).
4. Termination (e.g., comparison with other similar situations, proper warnings, adherence to the complaint procedures, etc.).

As a result, it is important to audit these areas of the business on a regular and systematic basis to see if the programs and procedures are working.

Besides these four stages of the employment relationship that are most likely to create conflict, there are some additional areas where companies seem to be the most vulnerable to making a mistake. These include but are not limited to the following:

- **Misclassification of exempt and nonexempt jobs**—almost every company has job positions that have been misclassified as exempt from overtime requirements.
- **Inadequate personnel files**—a review of sample personnel files often reveals inadequate documentation of performance. For example, disciplinary warnings are frequently informal, vague and/or inconsistent. Medical information is often found in personnel files, despite laws requiring that such data be kept separate. Accurate and detailed records are essential for employers to defend any type of claim brought by an employee, particularly unemployment compensation or wrongful discharge claims.
- **Time keeping records. With the new FLSA laws, it is important that time worked is recorded accurately.**
- **Insufficient documentation**—Reviews of employer hiring practices often uncover inadequate documentation, such as missing or incomplete I-9 Forms.
- **Ensure compliance with employment laws**:
    - Americans with Disabilities Act
    - Workers' compensation laws
    - Drug-Free Workplace Act
    - OSHA

Other areas to be reviewed:

- Job descriptions
- Performance appraisals
- Termination procedures
- Employee handbook
- Recruiting and employment

Auditing these areas will allow the company to identify weaknesses or vulnerabilities in its systems and help identify issues that need to be updated—either to comply with new laws and regulations or simply to be more comprehensive.

What to Expect

The amount of time involved and the effort required will depend on the size and type of the company, the type of information the company hopes to glean from the audit, the scope of the audit and the number of people included on the audit team.

Audit Feedback

At the conclusion of the review, findings are typically reduced to a written report with recommendations that are prioritized based on the risk level assigned to each item (e.g., high, medium and low). From this final analysis, a roadmap for action can be developed that will help determine the order in which to address the issues raised in the audit review.